

The Impending Housing Shortage



The housing market is predicted to face a shortage of new homes in the near future. Although foreclosures have flooded the market in many areas, other places will face **reduced inventory** in a few years when the economy has recovered and buyers return to the market.

More People in the Market for a Home

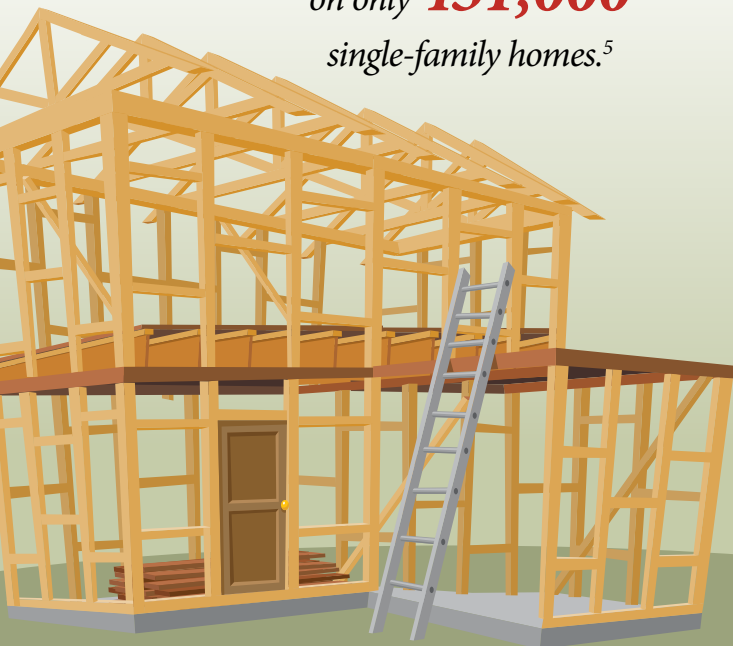
According to a recent study from the Joint Center for Housing Studies at Harvard University, population growth over the next decade will create a demand for nearly **1 million new homes per year**.¹

600,000 – The amount of privately-owned housing units that have begun the construction process (housing starts) in 2010, which is well below normal replacement levels.² Builders have kept housing starts below **1 million** annually since 2007.¹

Builders will be Slow to Respond

Construction ground to a halt when the housing bubble burst a few years ago, leaving developments unfinished and companies bankrupt. In the past, home builders have been able to meet the increased demand that follows economic downturns; however, current challenges may prevent this readiness in the future. Due to the economic climate, it has been difficult for builders to secure financing. Additionally, many haven't been preparing land for development as they have during previous downturns. As a result, **builders will be slow to respond to the increased demand for homes in the future**.³

*This year, construction will begin on only **431,000** single-family homes.*⁵



*Household formation increased to **950,000** in 2010, as more people, particularly echo boomers, moved out on their own, fueling demand for rental and starter homes.*⁴

What Does it Mean for the Market?

- **Tighter markets.** Although you may be able to get a great deal on a home now, a limited supply will drive prices up and tighten markets around the country. Experts predict that prices will increase up to four points faster than inflation in all non-distressed markets.
- **If you live in a non-distressed market, construction will respond to demand more quickly than in other markets.** These markets had fewer foreclosures and an existing inventory of seven months.
- **Restrictions may make it difficult for you to secure credit.** While experts fear that restrictive credit standards will dampen recovery, in reality these standards are similar to the ones in place before the bubble. However, there is fear that these restrictions will keep low- to moderate-income families from buying homes.

Sources: 1) State of the Nation's Housing Report, Joint Center for Housing Studies, Harvard University, 2011
2) CNN Money, November 2, 2010
3) CNN Money, June 15, 2010
4) Wall Street Journal, June 4, 2011
5) National Association of Home Builders